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ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2

Annual Component Unit Financial Statements
With Independent Auditors' Report

and

Report on Internal Control Over Financial Reporting
and Compliance and Other Matters

For the Years Ended September 30, 2009 and 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

4/21/10

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
St. Mary Parish
Water and Sewer Commission No. 2
Bayou Vista, Louisiana

We have audited the accompanying financial statements of the business-type activities and the major fund of St. Mary Parish Water and Sewer Commission No. 2, a component unit of St. Mary Parish, as of and for the year ended September 30, 2009 and 2008, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the St. Mary Parish Water and Sewer Commission No. 2's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

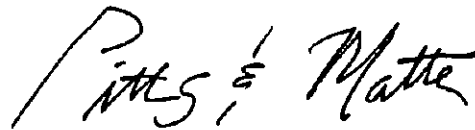
In our opinion, the 2009 and 2008 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of St. Mary Parish Water and Sewer Commission No. 2 as of September 30, 2009 and 2008 and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2010 on our consideration of St. Mary Parish Water and Sewer Commission No. 2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the St. Mary Parish Water and Sewer Commission No.2's basic financial statements. The schedules and statistical data listed in the table of contents as Other Supplemental Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

March 23, 2010

A handwritten signature in cursive script that reads "Pitts & Matte". The signature is written in dark ink and is positioned above the firm's name in the printed text.

CERTIFIED PUBLIC ACCOUNTANTS

St. Mary Parish Water and Sewer Commission No. 2

State of Louisiana

Comparative Statement of Net Assets

Water and Sewer Enterprise Fund

September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 246,772	\$ 241,583
Investments	1,376,311	1,032,040
Accounts receivable	165,804	173,547
Inventory	63,811	86,883
Prepaid expenses	11,745	11,698
Due from other governmental units	-	12,733
Total current assets	<u>1,864,443</u>	<u>1,558,484</u>
RESTRICTED ASSETS (cash and investments):		
General obligation bond debt service cash	16,019	6,311
General obligation bond debt service investments	145,414	144,385
Customer meter deposits cash	2,101	5,103
Customer meter deposits investments	191,308	191,953
Total restricted assets	<u>354,842</u>	<u>347,752</u>
NONCURRENT ASSETS:		
Property, Plant and Equipment (net of accumulated depreciation)	4,307,646	4,350,647
Prepaid water tower maintenance	103,123	142,576
Unamortized debt issuance costs,	16,841	18,137
Investment in Berwick-Bayou Vista Joint Waterworks Commission	<u>426,523</u>	<u>425,346</u>
Total noncurrent assets	<u>4,854,133</u>	<u>4,936,706</u>
TOTAL ASSETS	<u>\$ 7,073,418</u>	<u>\$ 6,842,942</u>

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES (payable from current assets):		
Accounts payable and accrued expenses	\$ 18,422	\$ 24,890
Contracts payable	48,490	-
Due to other governmental units	121,408	123,572
CURRENT LIABILITIES (payable from restricted assets):		
Bonds due within one year	60,000	55,000
Accrued interest on bonds	5,284	5,284
Customer meter deposits	<u>177,950</u>	<u>174,695</u>
Total current liabilities	<u>431,554</u>	<u>383,441</u>
LONG-TERM DEBT		
Bonds due after one year	<u>1,020,000</u>	<u>1,080,000</u>
Total liabilities	<u>1,451,554</u>	<u>1,463,441</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,239,203	3,228,500
Restricted for:		
Debt service	161,433	150,696
Unrestricted	<u>2,221,228</u>	<u>2,000,305</u>
Total net assets	<u>5,621,864</u>	<u>5,379,501</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,073,418</u>	<u>\$ 6,842,942</u>

St. Mary Parish Water and Sewer Commission No. 2
State of Louisiana
Comparative Statement of Revenues, Expenses and Net Assets
Water and Sewer Enterprise Fund
Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Charges for water service	\$ 451,649	\$ 434,016
Charges for sewer service	429,317	457,568
Delinquent charges	19,078	16,160
Meter installation, reconnects, permits, etc.	28,404	23,910
Garbage collection fees	<u>12,843</u>	<u>12,836</u>
TOTAL OPERATING REVENUES	<u>941,291</u>	<u>944,490</u>
OPERATING EXPENSES		
Direct operating costs		
Cost of water purchases	322,520	301,571
Sewerage treatment fees	254,029	261,827
Repair and maintenance – water system	122,199	92,661
Repair and maintenance – sewerage system	118,506	209,375
Personal services		
Clerical salaries	50,461	46,638
Other salaries	56,167	54,105
Board meetings	15,929	15,480
Retirement contributions	13,596	13,184
Health insurance	18,998	15,634
Operating services		
Insurance	17,561	24,300
Accounting fees	16,022	16,397
Engineering fees	1,774	2,662
Computer consulting	2,330	6,480
Amortize tower maintenance	39,453	39,453
Utilities and telephone	28,198	26,394
Vehicle expense	6,972	6,339
Legal fees	150	1,557
Materials and supplies		
Office expense	3,839	4,022
Postage	6,016	5,438
Advertising	784	1,035
Miscellaneous	1,150	1,828
Depreciation		
Water System	117,159	110,115
Sewer System	<u>114,297</u>	<u>111,121</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,328,110</u>	<u>\$ 1,367,616</u>

	<u>2009</u>	<u>2008</u>
INCOME (LOSS) FROM OPERATIONS	\$ (386,819)	\$ (423,126)
NON-OPERATING REVENUE (EXPENSES)		
FEMA	12,714	-
Ad valorem taxes		
Operations and maintenance	527,116	425,815
Debt service	122,244	164,610
Interest income	25,298	50,753
Amortization of debt issuance costs	(1,296)	(1,296)
Interest expense	(58,724)	(61,584)
Other	<u>1,830</u>	<u>-</u>
TOTAL NON-OPERATING REVENUE	<u>629,182</u>	<u>578,298</u>
INCOME OR (LOSS) BEFORE CONTRIBUTIONS	242,363	155,172
Contributions, intergovernmental		
St. Mary Parish Government	<u>-</u>	<u>66,127</u>
CHANGE IN NET ASSETS	242,363	221,299
NET ASSETS :		
NET ASSETS - BEGINNING OF YEAR	<u>5,379,501</u>	<u>5,158,202</u>
NET ASSETS - END OF YEAR	<u>\$ 5,621,864</u>	<u>\$ 5,379,501</u>

St. Mary Parish Water and Sewer Commission No. 2
State of Louisiana
Comparative Statement of Cash Flows - Water and Sewer Enterprise Fund
Years Ended September 30, 2009 and 2008

Increase (Decrease) in Cash and Cash Equivalents

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Received from customers	\$ 949,034	\$ 937,255
Paid to suppliers and employees	<u>(990,858)</u>	<u>(1,182,145)</u>
Net cash used by operating activities	<u>(41,824)</u>	<u>(244,890)</u>
Cash flows from noncapital financing activities:		
Ad valorem taxes	648,064	589,129
Cash from meter deposits	3,255	7,072
Advanced (to) from other government units	10,569	140,944
St. Mary Parish grant	-	66,127
FEMA	12,714	-
Other	<u>1,830</u>	<u>-</u>
Net cash provided by noncapital financing activities:	<u>676,432</u>	<u>803,272</u>
Cash from capital and related financing activities:		
Principal paid on bond	(55,000)	(55,000)
Interest paid on bond	(58,724)	(61,584)
Acquisition and construction of capital assets	<u>(189,632)</u>	<u>(557,478)</u>
Net cash used by capital and related activities	<u>(303,356)</u>	<u>(674,062)</u>
Cash flows from investing activities:		
Purchases of investment securities	(344,655)	(366,062)
Sale of investment securities	-	429,965
Interest income	<u>25,298</u>	<u>50,753</u>
Net cash provided (used) by investing activities	<u>(319,357)</u>	<u>114,656</u>
Net increase (decrease) in cash and cash equivalents	11,895	(1,024)
Cash and cash equivalents at beginning of period	<u>252,997</u>	<u>254,021</u>
Cash and cash equivalents at end of period	<u>\$ 264,892</u>	<u>\$ 252,997</u>

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating income (loss)	\$ (386,819)	\$ (423,126)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	231,456	215,450
Amortize tower maintenance	39,453	39,453
Amortize debt issuance costs	1,296	1,296
Increase (decrease) in accounts receivable	7,743	(7,235)
Increase (decrease) in inventory	23,072	(41,254)
Increase (decrease) in accounts payable and accrued expenses	42,022	(29,474)
(Increase) decrease in Prepaid expenses	<u>(47)</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ (41,824)</u>	<u>\$ (244,890)</u>

Cash and cash equivalents are presented on the Comparative Statement of Net Assets as follows:

	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and cash equivalents	\$ 246,772	\$ 241,583
Restricted Assets:		
General obligation bond debt service cash	16,019	6,311
Customer meter deposits cash	<u>2,101</u>	<u>5,103</u>
Total cash and cash equivalents	<u>\$ 264,892</u>	<u>\$ 252,997</u>

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2

STATE OF LOUISIANA

Notes to Financial Statements

September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On October 27, 2000, the St. Mary parish Council adopted Ordinance No. 1474 which created "St. Mary Parish Water and Sewer Commission No. 2, State of Louisiana (the Commission) which is a political subdivision of the Parish of St. Mary and the state of Louisiana, with authority to plan, finance, construct, acquire, improve, operate and maintain water, sewer and sewerage disposal improvements within its designated boundaries. The Commission was created, by combining the former Waterworks District No. 2 and Sewerage District No. 2.

The accounting and reporting practices of the Commission conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission has not presented a Management's Discussion & Analysis (M D & A) that GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The following is a summary of the significant accounting policies used in preparing the financial statements:

A. Reporting Entity

In evaluating how to define the governmental unit, for financial reporting purposes, consideration has been given to the following criteria as set forth in GAAP:

- a. Financial benefit or burden
- b. Appointment of a voting majority
- c. Imposition of will
- d. Fiscally dependent

Based upon the above criteria, the Commission is a component unit and integral part of the St. Mary parish Council (the primary government).

These financial statements include only the operations of the Commission.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting

The financial statements of the Commission are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The Commission has elected not to apply Financial Accounting Standards Board provisions issued after November 30, 1989.

Enterprise Fund

An Enterprise Fund is used to account for the Commission's operations which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Revenues

The following is a summary of the Commission's recognition policies for its major revenue sources:

Charges for water service come from metered sales to residential, industrial and municipal customers. Charges for sewerage service are based upon gallons of water used by customers. Revenues for water and sewer services are recognized in the month when the water is used by the customers.

Ad valorem taxes (which is based upon homesteads in the Parish) are recorded in the year the taxes are assessed.

Investment earnings are recorded when earned.

Substantially all other revenues are recorded when they are earned by the Commission.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Expenses

Expenses are recognized under the accrual basis of accounting where liabilities are recorded at the time expenses are incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgets and Budgetary Accounting

The St. Mary Parish Water and Sewer Commission No. 2 follows these procedures in establishing administrative budgetary accounting:

- a. An administrative budget is employed as a management planning and control device during the year for the Proprietary Fund. The forecasted budget is prepared on a basis consistent with GAAP.
- b. These financial statements do not present budget and actual comparisons of the administrative budget because it is not a legally adopted budget.

F. Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

For financial statement purposes, cash and cash equivalents include bank deposits and/or certificates of deposit with original maturates of less than three months.

Investments

The Commission invests in bank certificates of deposit (CDs) and external investment pools. The CDs (nonparticipating contracts) are recorded at cost, unless there is significant impairment of the credit standing of the issuer. The pooled investments are recorded at amortized costs which approximate fair market value.

The Commission also invests in Federal government securities which the Commission values at fair value.

G. Receivables

Accounts receivable consist of amounts due from customers for metered water and sewerage usage. The financial statements do not contain an allowance for uncollectible accounts receivable which is a generally accepted accounting principle. Uncollectible receivables are charged off at the time information becomes available which would indicate the uncollectibility of the particular receivable. The failure to utilize the allowance method to account for bad debts is not material to the financial statements.

H. Restricted Assets

Amounts received as utility deposits are held in separate accounts. These funds are classified as restricted assets on the balance sheet because their use is limited.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with the 2002 general obligation bond issue requirements, certain funds are accumulated in a sinking fund account that is restricted for the purpose of payment of the bond principal and interest.

I. Joint Venture

The Commission and the Town of Berwick jointly constructed a treatment plant to provide a water supply to each entity. Each participant has a 50% interest in the venture. The cost of constructing the plant was borne by the two communities, and they have appointed a board to operate and maintain the plant. The Berwick-Bayou Vista Joint Waterworks Commission was created to maintain, operate and administer the joint water treatment plant. The Commission has included its share of the joint venture cost and current operations in these financial statements using the equity method of accounting. See Note 8 for additional disclosure.

J. Inventory and Prepaid Items

Materials and supplies inventory is valued at cost. Cost is determined primarily by the first-in, first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

K. Property, Plant, and Equipment

Fixed assets including water plant, water and sewer lines, water towers, pump stations and all other water distribution and sewerage disposal assets are capitalized in the proprietary fund. Property, plant and equipment owned by the proprietary fund is recorded at cost or, if contributed property, at their market value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest has been capitalized during the construction period on property, plant and equipment in the proprietary fund.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Water Plant	20-40 years
Water distribution system	10-33 years
Sewerage distribution system	10-45 years
Buildings	10-40 years
Furniture and equipment	3-25 years
Automobiles and trucks	6 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Accumulated Vacation, Compensatory Time and Sick Leave

Accumulated vacation, compensatory time and sick leave are recorded as an expense of the period in which paid. At September 30, 2009 and 2008 unrecorded liabilities for the above are immaterial.

M. Equity Classifications

Equity is classified as net assets and displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding debt that is attributable to the acquisition, construction, or improvement of these assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – The component of net asset consist of net assets that do not meet definition of “restricted” or “invested in capital assets, net of related debt.”

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - AD VALOREM TAXES AND MAINTENANCE MILLAGE ASSESSMENT

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Property taxes are levied each November 1 on the assessed value listed as of the prior January 1 for all real property, merchandise and movable property located in the Commission's boundaries. Assessed values are established by the St. Mary Parish Assessor's Office and the State Tax Commission at percentages of actual value as specified by Louisiana Law. Taxes are due and payable December 31 and are delinquent after that date with interest being charged. Lien date for all delinquent properties is April 1. The St. Mary Parish Sheriff bills and collects property taxes for the Commission using the assessed values determined by the tax assessor of St. Mary Parish. Commission property tax revenues are budgeted in the year billed.

The Commission authorized the following millages for the purpose of operating and maintaining the water and sewer system for the constituents of the Commission. The millage was dedicated as follows:

	<u>2009</u>	<u>2008</u>
Operations and maintenance	10.78	11.00
Debt service	<u>2.50</u>	<u>4.25</u>
	<u>13.28</u>	<u>15.25</u>

Based upon the taxable assessed value of the property within the District each mil of assessment generated approximately \$48,900 and \$38,700 of tax revenues in 2009 and 2008 respectively.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Commission does not have a formal investment policy related to interest rate risk (the risk of an investment decreasing in value due to increasing interest rates).

In addition, the Commission does not have a formal investment policy related to credit risk (including concentrations of credit). However the Commission does follow state law as to limitations on types of deposits and investments as described below.

The Commission does not invest in any investments subject to foreign currency risk.

Cash and cash equivalents

Under state law the Commission may deposit its funds with certain state and federally chartered financial institutions. These deposits are required to be insured or collateralized by the financial institutions.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

At year end 2009 and 2008 the carrying amounts of the Commission's cash were \$264,892 and \$252,997 respectively and the bank balances were \$272,327 and \$281,170 respectively.

In 2009 and 2008 the entire balances were covered by FDIC insurance.

Investments

Under state law the Commission may invest in certain federal or federally guaranteed securities, certain bank time certificates of deposit, mutual or trust funds, and in the Louisiana Asset Management Pool (LAMP). LAMP is an external investment pool operated to allow local government to pool their investment funds. LAMP is not registered with the SEC as an investment company. LAMP is subject to regulatory oversight of the Louisiana State Treasurer and the LAMP board of directors. Share values for the pool are valued at amortized cost which may vary slightly from the fair value.

The following is a summary of investments held by the Commission at September 30,

	<u>2009</u>		<u>2008</u>	
	Percentage of Total		Percentage of Total	
	<u>Amount</u>	<u>Investments</u>	<u>Amount</u>	<u>Investments</u>
U.S. Government Agency Securities	--	--	--	--
LAMP (rated AAAm by Standard & Poors)	\$934,987	54%	\$929,862	68%
Money Market Accounts	233,241	14%	221,241	16%
Bank certificates of deposit:				
Fully FDIC insured	476,000	28%	217,276	16%
Collateralized with securities held by financial institution's agent not in the Comm- ission's name	<u>77,805</u>	<u>4%</u>	<u>--</u>	<u>--</u>
	<u>\$1,713,033</u>	<u>100%</u>	<u>\$1,368,379</u>	<u>100%</u>

As of September 30, 2009, all investments had maturity dates of one through five years except LAMP and the money market accounts which mature in less than one year.

NOTE 4 - DUE TO/FROM OTHER GOVERNMENTAL UNITS

The following is a detail of due from/to other governments at September 30,

	<u>2009</u>	<u>2008</u>
Due from other governments:		
Due from St. Mary Parish Council (Sewer Projects)	—	<u>\$12,733</u>
Due to other governments:		
Due to Berwick-Bayou Vista Joint Waterworks (water purchases)	\$28,000	\$23,419
Due to Joint Sewer Commission Wards 5 & 8 (Sewerage treatment fees)	17,647	22,257
Due to St. Mary Parish Council (Intergovernmental service-garbage/mosquito fees)	<u>75,761</u>	<u>77,896</u>
	<u>\$121,408</u>	<u>\$123,572</u>

NOTE 5 - PREPAID WATER TOWER MAINTENANCE

The Commission periodically enters into contracts for the renovation and maintenance of its water towers. The Commission has determined the renovations last approximately 8 years. During 2005, the Commission completed renovations under a contract for its 200,000 gallon storage tank at a cost of approximately \$97,000. During 2004, the Commission completed renovations under a contract for its 500,000 gallon storage tank at a cost of approximately \$250,000. These cost will be amortized over 8 years. The unamortized portion of these costs of \$142,576 at 2008 and \$103,123 at 2009 is recorded in the financial statements as prepaid water tower maintenance.

NOTE 6 - PENSION PLAN

All employees participate in the Federal Social Security System. The Commission is required to remit an amount to the Social Security Administration equal to the employee's contribution. The Commission does not guarantee any of the benefits granted by the Social Security System.

In addition, the Commission contributes 5% of the gross wages of each qualified employee to their individual SEP/IRA Retirement Plan account on a monthly basis.

The Commission's contributions to the above plans totaled approximately \$14,000 and \$13,000 for the years ended September 30, 2009 and 2008, respectively.

NOTE 7 - FIXED ASSETS

CAPITAL ASSETS

Capital asset and depreciation activity for the years ended September 30, 2008 and 2009 is as follows:

	Ending Balance 9/30/2007	Increases	Decreases	Reclass- ifications	Balance 9/30/2008	Increases	Decreases	Reclass- ifications	Balance 9/30/2009
Capital assets not being depreciated:									
Land, right of ways	\$ 51,709				\$ 51,709				\$ 51,709
Construction in process	822,758	\$ 393,598	-	(1,176,940)	39,416	\$ -	-	-	39,416
Total capital assets not being depreciated	874,467	393,598	-	(1,176,940)	91,125	-	-	-	91,125
Other capital assets:									
Buildings	48,533				\$ 48,533				\$ 48,533
Distribution system - sewerage	3,221,265	105,432		822,711	4,149,408	110,596			4,260,004
Distribution system - water	3,176,227	26,731	\$ 5,786	354,229	3,551,401	72,860	\$ 3,981		3,620,280
Water Plant	838,485				838,485				838,485
Furniture & Equipment	118,965	9,880			128,845	4,999	20,057		113,787
Vehicles	25,318	14,594	-	-	40,012	-	12,101	-	27,911
Total other capital assets at historical cost	7,428,793	156,737	5,786	1,176,940	8,756,684	188,455	36,139	-	8,909,000
Less accumulated depreciation for:									
Buildings	42,183	1,058			43,241	966			44,207
Distribution system - sewerage	1,770,224	108,680			1,878,904	111,601			1,990,505
Distribution system - water	1,516,565	102,556	5,786		1,613,335	109,905	3,981		1,719,259
Water Plant	838,485				838,485				838,485
Furniture & Equipment	92,062	6,859			98,921	5,493	20,057		84,357
Vehicles	22,193	2,083	-	-	24,276	3,491	12,101	-	15,666
Total accumulated depreciation	4,281,712	221,236	5,786	-	4,497,162	231,456	36,139	-	4,692,479
Other capital assets, net	3,147,081	(64,499)	-	1,176,940	4,259,522	(43,001)	-	-	4,216,521
Total capital assets, net	\$ 4,021,548	\$ 329,099	-	-	\$ 4,350,647	\$ (43,001)	-	-	\$ 4,307,646

Depreciation expense for the years ended September 30, 2009 and 2008 was approximately \$231,000 and \$221,000, respectively.

NOTE 8 - LONG TERM DEBT

The following is a summary of long-term debt activity:

Balance at September 30, 2007	\$1,190,000
Repaid during 2008	<u>55,000</u>
Balance at September 30, 2008	1,135,000
Repaid during 2009	<u>55,000</u>
Balance at September 30, 2009	<u>\$1,080,000</u>

A detail of long-term debt is as follows:

\$1,400,000 of General Obligation Bonds, Series 2002 were issued in 2002 for the purpose of constructing and acquiring improvements to the waterworks and sewer plant and systems. The bonds bear interest at rates ranging from 5.0 percent to 6.0 percent and are payable through the year 2022. The bonds are being retired from the operating revenues and the portion of ad valorem taxes dedicated to debt service

	\$1,080,000
Less: current maturities	(<u>60,000</u>)
Long-term debt	<u>\$1,020,000</u>

Debt Maturity

Debt Service requirements at September 30, 2009, are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$60,000	\$55,675	\$115,675
2011	60,000	52,420	112,420
2012	65,000	48,820	113,820
2013	70,000	45,120	115,120
2014	75,000	41,476	116,476
2015-2019	430,000	144,569	574,569
2020-2022	<u>320,000</u>	<u>26,967</u>	<u>346,967</u>
Total	<u>\$1,080,000</u>	<u>\$415,047</u>	<u>\$1,495,047</u>

The Commission is subject to certain affirmative and negative covenants pursuant to its bond agreement. These covenants include but are not limited to:

1. Establishment and funding of certain debt service funds
2. Preparation and independent audit of financial statements
3. Restrictions on sale of property securing payments

NOTE 9 - RELATED PARTY - INVESTMENT IN BERWICK-BAYOU VISTA JOINT WATERWORKS COMMISSION

All of the water sold by the Commission is obtained from Berwick-Bayou Vista Joint Waterworks Commission (Joint Waterworks Commission). The Joint Waterworks Commission was created and established with the sole responsibility and duty to maintain, operate, and administer the joint water treatment plant for the Commission and Town of Berwick (Berwick). The water treatment plant was constructed and is owned by the Commission and Berwick. The Commission and Berwick appoint the members of the board for the Joint Waterworks Commission. The Commission's portion of the cost of the plant is carried in property, plant and equipment. Amounts reported as an investment in other assets represents the Commission's equity in the joint venture. Separate financial statements for the Joint Waterworks Commission are available from the Commission or the Joint Waterworks Commission. The following is a summary of selected financial information of the Joint Waterworks Commission:

	Year Ended <u>9/30/09</u>	Year Ended <u>9/30/08</u>
Total assets	\$900,755	\$885,264
Total liabilities	47,710	34,573
Total net assets	853,045	850,691
Total revenues	681,421	671,891
Total expenditures	673,568	646,036
Change in net assets	7,853	25,855

The Commission purchased the following quantities and amounts of water from the Joint Waterworks Commission:

	Year Ended <u>9/30/09</u>	Year Ended <u>9/30/08</u>
Gallons of water purchased	217,661,000	221,365,000
Cost of water purchases	\$322,520	\$301,571

NOTE 10 - COMPENSATION OF BOARD MEMBERS

Board Members received the following per diems for the years ended September 30, 2009 and 2008:

	<u>2009</u>		<u>2008</u>	
	<u>Meetings Attended</u>	<u>Amount</u>	<u>Meetings Attended</u>	<u>Amount</u>
Herbert Adams, Secretary/Treasurer	8	\$2,269	8	\$2,187
Albert Hebert, Commissioner	12	2,269	12	2,187
Tony Hensgens, Commissioner	7	2,109	11	2,210
Erving Richard, Commissioner	12	2,302	12	2,210
Stan Robison, Vice President	12	2,269	10	2,187
Don Ryan, President	11	<u>2,956</u>	12	<u>2,849</u>
		<u>\$14,174</u>		<u>\$13,830</u>
Berwick-Bayou Vista Joint Waterworks Commission				
Erving Richard, Commissioner	12	\$720	11	\$ 720
Tony Hensgens, Commissioner	11	<u>660</u>	12	<u>720</u>
		<u>\$1,380</u>		<u>\$1,440</u>

NOTE 11 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Commission carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements of claims have not exceeded coverage in the past three years. See the insurance schedule included in the supplemental information section for risks covered by commercial insurance.

OTHER SUPPLEMENTAL SCHEDULES

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA**

Schedule of Gallons of Water Purchased and Sold
and Number of Water Customers

For the year ended September 30, 2009 and 2008

(Unaudited)

	<u>9-30-09</u>	<u>9-30-08</u>
Gallons purchased for the period	217,661,000	221,365,000
Gallons sold for the period	153,516,210	154,987,550
Number of users at year end	1,910	1,926
Gallons not sold for the period	64,144,790	66,377,450
Cost per 1000 gallons purchased	\$1.48	\$1.36
Cost of gallons not sold	\$94,934	\$80,980
Percentage of gallons not sold	29%	30%

ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA

Water and Sewer Rates
September 30, 2009
(Unaudited)

The board of commissioners approved a water and sewer rate increase on April 14, 2008 effective May 1, 2008. The new rate is as follows:

Water	Sewer
\$6.00 flat fee	\$6.00 flat fee
\$2.00 (\$3.00 out of district) per 1,000 gallons of water used	\$2.00 (\$3.00 out of district) per 1000 gallons of water used

For the period January 2007 to April 30, 2008, the water and sewer rates were as follows:

Water	Sewer
\$6.00 flat fee	\$6.00 flat fee
\$1.75 per 1,000 gallons of water used	\$1.75 per 1,000 gallons of water used

For the period October 1995 to December 31, 2006, the water and sewer rates were as follows:

Water	Sewer
First 3,000 gallons - \$6.00	\$7.00 flat fee
Over 3,000 gallons - \$1.90 per 1,000	\$1.15 per 1,000 gallons of water used

For the period October 1992 to September 30, 1995, the water and sewer rates were as follows:

Water	Sewer
First 3,000 gallons - \$4.75	\$6.00 flat fee
Over 3,000 gallons - \$.17 per 100	\$1.00 per 1,000 gallons of water used

For period August 1988 to September 30, 1992, the water rates were as follows:

Water
First 3,000 gallons - \$4.00
Over 3,000 gallons - \$.14 per 100

Prior to August, 1988 the water rates were as follows:

First 3,000 gallons - \$3.35
Next 3,000 gallons - \$1.05 per 1,000
Next 3,000 gallons - \$1.00 per 1,000
Next 3,000 gallons - \$.95 per 1,000
Next 3,000 gallons - \$.90 per 1,000
Next 3,000 gallons - \$.85 per 1,000
Next 3,000 gallons - \$.80 per 1,000
Next 3,000 gallons - \$.70 per 1,000

**ST. MARY PARISH WATER AND SEWER COMMISSION NO. 2
STATE OF LOUISIANA**

Insurance
September 30, 2009
(Unaudited)

<u>Insurer</u>	<u>Amount of Policy</u>	<u>Risk Covered</u>	<u>Expiration Date</u>
La. Citizens Property Insurance Company	\$100,000	Building (600 Saturn Rd)	4/26/10
	\$25,000	Office building and contents (1333 Belleview)	
	\$48,000	Warehouse and contents	4/26/10
Bridgefield Casualty Insurance Company	\$1,000,000	Worker's Compensation	4/26/10
St. Paul Insurance Company	\$2,000,000	Comprehensive general liability	4/26/10
	\$1,000,000	Auto liability	4/26/10
	\$500,000	Crime coverage	4/26/10
United National Insurance Company	\$1,000,000	Public Management Liability	4/26/10

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS SECTION



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Commissioners
St. Mary Parish
Water and Sewer Commission No. 2
Bayou Vista, Louisiana

We have audited the accompanying financial statements of the business-type activities and the major fund of St. Mary Parish Water and Sewer Commission No. 2 (the Commission) as of and for the year ended September 30, 2009, which collectively comprise the Commission's basic financial statement and have issued our report thereon dated March 23, 2010, which contains one additional paragraph. The paragraph states that management elected to omit Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, we noted one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affect the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is *more than a remote likelihood that a misstatement of the Commission's financial statements* that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in *more than a remote likelihood that a material misstatement of the financial statements* will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the use of the management of the Commission, the Legislative Auditor of the State of Louisiana and the Finance Committee of the St. Mary Parish Council, and is not intended to be and should not be used by anyone other than these specified parties. However under Louisiana Revised Statute 24:513, this report is considered a public record and may be distributed by the Legislative Auditor.

A handwritten signature in black ink, reading "Potts & Matte". The signature is written in a cursive, flowing style.

CERTIFIED PUBLIC ACCOUNTANTS

March 23, 2010
Morgan City, Louisiana

St. Mary Parish Water and Sewer Commission No. 2
State of Louisiana

Schedule of Findings, Questioned Costs and Federal Awards
For the Year Ended September 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the St. Mary Parish Water and Sewer Commission No. 2.

2. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control over Financial Reporting

There was one significant deficiency in internal control over financial reporting noted during the audit of the financial statements. This condition is reported as a material weakness.

Compliance and Other Matters

There were no instances of noncompliance nor other matters noted during the audit of the financial statements that are required to be reported.

3. Federal Awards

This section is not applicable for the year ended September 30, 2009.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weaknesses

ITEM 2009-1 - SEGREGATION OF DUTIES

Auditors' Comments

Condition: While performing audit tests and inquiring about internal control, we discovered that there is little segregation of duties in the area of billings and collections.

Criteria: Ordinarily, the accounting duties performed in an organization are segregated to reduce possible errors or irregularities that could occur in the accounting records and not be detected.

Effect: Lack of segregation of duties results in a material weakness in internal accounting controls.

Cause: The Commission has limited personnel.

Management's Comments: We will constantly monitor the activity of the employees, in an effort to minimize any errors or omissions.

C. FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD PROGRAMS

This section is not applicable for the year ended September 30, 2009.

SUMMARY OF PRIOR YEAR FINDINGS AND RELATED CORRECTIVE ACTION
PREPARED BY ST. MARY PARISH
WATER AND SEWER COMMISSION NO. 2

INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND
OTHER MATTERS MATERIAL TO THE FINANCIAL STATEMENTS

Internal Control

Material Weakness

Item 2008-1 Segregation of Duties

Condition: While performing audit tests and inquiring about internal control, our auditors discovered that there is very little segregation of duties within the Commission's accounting function.

Corrective Action: We have reviewed this situation and have decided that the additional controls derived by employing an additional person in our bookkeeping area is outweighed by the additional personnel costs.

The Board will constantly monitor the activity of the employees, in an effort to minimize any errors or omissions.

Item 2008-2 - Failure to Request Contract Reimbursement

Condition: The commission has an agreement with the St. Mary Parish Council to reimburse the Commission for 85% of the costs of a construction project. During the course of the audit, our auditors discovered that the Commission properly paid their cost but failed to bill the Council for reimbursement.

Corrective Action: This was corrected in 2009.

INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

Not applicable to prior year.

ST. MARY PARISH WATER & SEWER COMMISSION NO. 2
P.O. BOX 635
PATTERSON, LA. 70392-0635
985-395-2747

March 23, 2010

Mr. Daryl Purpera, CPA, CFE
Temporary Legislative Auditor, State of Louisiana
P.O. Box 94397
Baton Rouge, La. 70804-9397

Dear Mr. Purpera:

The St. Mary Parish Water & Sewer Commission No. 2 respectfully submits the following corrective action plan for our year ended September 30, 2009:

Person Responsible: Don Ryan, President
St. Mary Parish Water & Sewer Commission No. 2

Time for completion: September, 2010

Item 2009-1 Segregation of Duties

Finding:

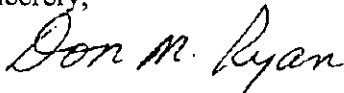
Our auditors noted that there is little segregation of duties in the accounting area.

Corrective Active:

We will constantly monitor the activity of the employees in an effort to minimize any errors or omissions.

If you have any questions concerning this corrective action plan, please contact me.

Sincerely,



Don M. Ryan, President
St. Mary Parish
WATER & SEWER COMMISSION NO. 2